COMMITTEE REPORT

The Energy Efficiency Public Goods Charge Report:

A PROPOSAL FOR A NEW MILLENNIUM

COMMITTEE REPORT

December 1999

California Energy Commission

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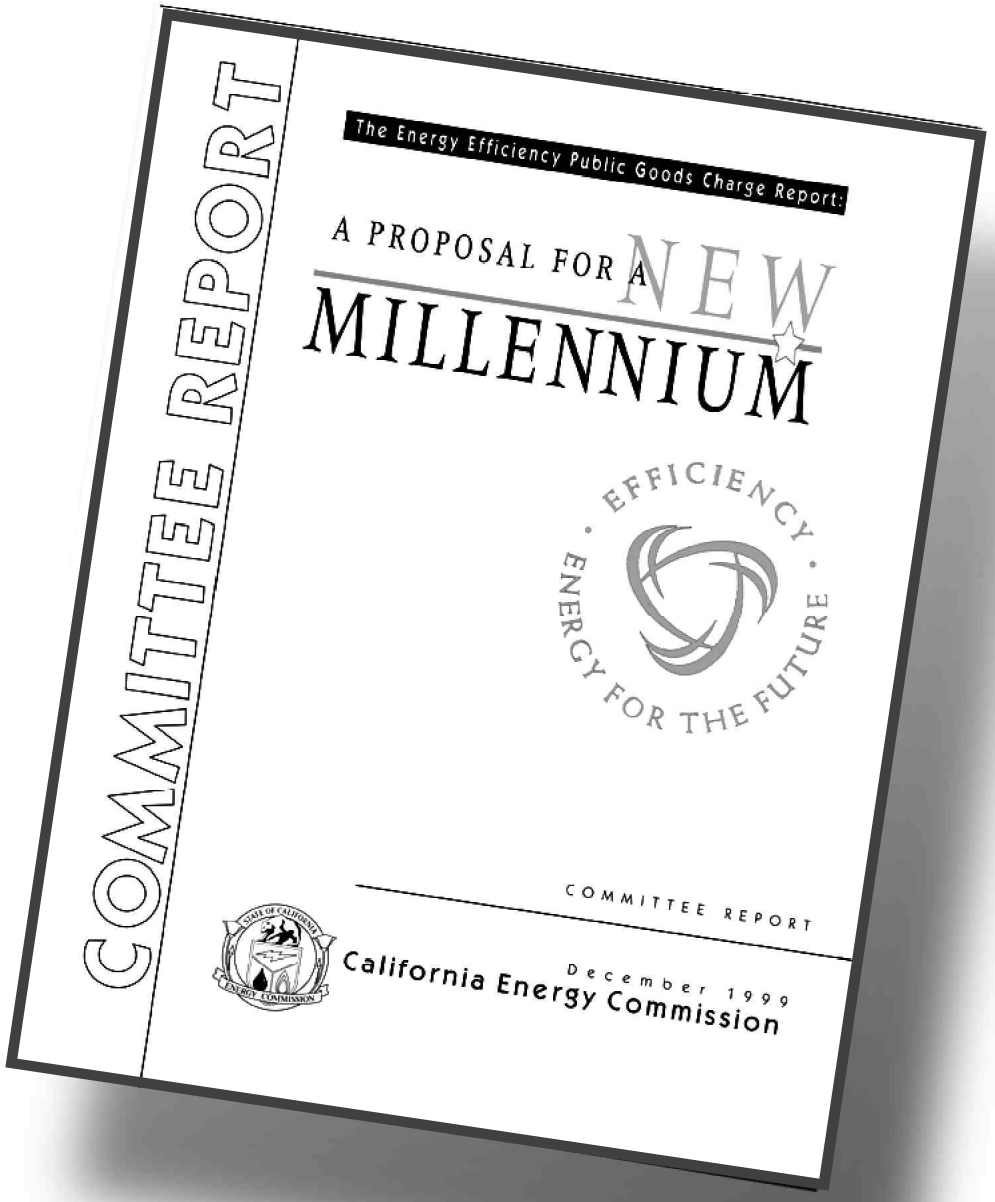

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INTRODUCTION

For over twenty years the California Public Utility Commission (CPUC) has reviewed, evaluated, and approved energy efficiency programs run by the state s four major investor-owned utilities Pacific Gas and Electric, San Diego Gas and Electric, Southern California Edison, and Southern California Gas. For over twenty years these companies have gone to the CPUC with requests for program funding and have had the costs and benefits of their energy efficiency programs debated in public through general rate cases and other CPUC proceedings. And for over twenty years, utilities have looked to the CPUC staff and Commissioners and, more recently, the CPUC appointed California Board for Energy Efficiency (CBEE), for direction and policy analysis on energy efficiency.

But times are changing in the electricity industry, and with the passage of Assembly Bill 1105 (AB 1105) on July 1, 1999, a new system of review and oversight may well emerge.

AB 1105 considers transferring the authority over the energy efficiency programs funded by the public goods charge from the CPUC to the California Energy Commission (Energy Commission), the state s energy policy, research and development, energy efficiency, and power plant siting body. The Energy Commission has been asked to prepare this report and consider a number of factors associated with this transfer of authority or governance, the term used in the legislation. Appropriately for such a change in direction, the report is due January 1, 2000, the first day of the new millennium.

In responding to the letter and spirit of the legislation, the Energy Commission s Energy Efficiency Committee (the Committee) has made a number of recommendations. These recommendations have come after six months of deliberation. During the last six months, the Committee has held four public Committee Workshops, one public Staff Workshop, and has received comments on a Staff Draft Energy Efficiency Public Goods Charge Report released in November 1999.

The Committee has given serious consideration to all comments. And while the recommendations in this report are not likely to satisfy any one party completely, the Committee believes this report strikes a balance between stakeholder concerns and the Committee s vision for the disposition of public good funds.

V I S I O N

The Committee believes that in this age of utility deregulation, energy efficiency public goods funds should be used to stimulate investments in cost-effective, sustainable energy savings that are not likely to be adequately provided by the competitive or the regulated market. Saving energy and using energy more efficiently is in the vital interest of the state s future, and public good funds should be used to significantly reduce California s electric system loads.

Energy efficiency programs can reduce the intensity of the state s infrastructure, make businesses more competitive, and allow consumers to live more comfortably. The Committee believes that energy efficiency programs significantly increase system reliability, reduce the need for new capacity, improve the environment, and help customers control their utility bills. This has been the case for almost twenty years, and the Committee has no evidence that the efficiency market has reached saturation. In fact, analysis by Energy Commission staff shows that the amount of additional energy that would be saved by continuing all utility programs at current funding levels over the next decade is only a fraction of the remaining cost-effective potential to save energy. The Committee believes that to achieve these additional savings, public goods funds should not be used to simply sustain existing programs. New programs must be developed to exploit the power of the market.

The Committee envisons a program delivery structure that both builds on past successes and is well-suited to a restructured market--a structure that allows contributions from multiple actors can make utility service territories transparent and encourage coordination with municipal utility systems.

S T R A T E G Y

The Committee believes that in order to save energy as cost-effectively as possible and to transfer the oversight of efficiency programs from the CPUC to the Energy Commission with no disruption of existing programs, the Energy Commission must follow a strategy.

The elements of this strategy are laid out in some detail in this report under the headings of Operational Plan and Transition Plan. Basically, the strategy is this:

Programs. All means of achieving cost-effective energy efficiency will be considered. That includes programs that focus on markets for new products or that dispense information (market transformation programs), programs that provide financial incentives and require precise, short-term quantifiable measurement of savings (resource acquisition programs), programs that seek to capture so-called lost opportunities , and programs that encourage the initiative of the private sector. All program approaches have their place. No one approach, as a rule, is preferable to others.

Governance. The Energy Commission is the proper governing body for the Energy Efficiency Public Goods Charge Program (EE Program). The Energy Commission should set broad policies for how these fund should be spent. The Energy Commission is ultimately responsible to the Legislature and to the people of California for the success or failure of the program.

Administration. The Energy Commission will act as the general overseer for the funds. This means the Energy Commission will select a project manager and designate staff to write up proposals. Funds will be dispersed through a contracting process. The awarded contracts will give program administrators broad authority to manage their programs with little state intervention. The Committee believes this is both essential for the success of the program and the only way to minimize state involvement. In order to accomplish this type of contracting, however, the Energy Commission will need legislative relief from various state contracting restrictions.

Non-Profit. While establishing a legislatively authorized non-profit corporation to administer the entire EE Program has a definite appeal, the Committee cannot at this time recommend such an action.

Evolutionary Process. The Committee believes that ultimately administration of all programs covered under the public good charge should be competitively bid and that, where applicable, all programs should be delivered statewide. However, the Committee has no illusions about how quickly this can be done. The Committee therefore proposes an evolutionary approach with a four year phased-in bidding process. Briefly, the process would work like this. In year 2001, the Energy Commission will release two Requests for Proposal (RFPs), one for innovative energy programs and one for a contractor to work on independent measurement and evaluation. In 2002, the Energy Commission will release an RFP for all the new construction programs. In 2003, based on the experience of the previous three RFPs, the Energy Commission will release an RFP for all nonresidential programs. And in 2004, an RFP for all residential programs will be released. During the interim, utilities will continue to manage the programs in their service territory until independent contractors have been selected. In keeping with the contracting nature of this process (as opposed to regulatory nature), the utilities will manage programs under a sole source agreement with the Energy Commission. The Energy Commission will also need legislative relief to expedite the sole source process.

Competitive Bids. During the transition, there will be no competitive bids between utilities. Utilities will continue to administer programs in their service territories. Utilities will, however, be eligible to bid for the various RFPs.

Funding. The Committee recommends leaving the funding level for energy efficiency programs at the current level of $270 million (in 1998 dollars). We recommend adjusting this figure for inflation. Included in the total is a non-bypassable natural gas public goods charge to be legislatively created. The current program should sunset in 2011 (ten years) and require

legislative reauthorization to continue. The Energy Commission will continue to investigate whether and how public goods funds might to be used to increase customer ability to respond to electricity peak prices.

Staffing/Assistance. The Committee requests in the range of 10 to 15 new staff in each of the first two years of the transition period. These additional people are necessary to set up and operate the EE Program. The Energy Commission will also need $1 million in each of the first two years for technical assistance.

Review. The Committee believes an Independent Review Panel needs to be set up by the Legislature to evaluate the overall operation of the EE Program. The Committee believes the panel should operate much like the current Public Interest Energy Research (PIER) Independent Review Panel. In fact, a strong case can be made for some of the existing PIER Panel members to also serve as the Energy Efficiency Independent Review Panel.

C O N C L U S I O N

The Committee realizes that accepting responsibility for the regulated utility efficiency programs--nearly 190 individual efficiency program elements--and an annual budget of upwards of $270 million is a great challenge. California has an enviable record in promoting energy efficiency. The Committee hopes to build on that record and extend it well into the future.

INTRODUCTION

A BRIEF HISTORY

While many applications of energy efficiency have existed in this country at least as far back as the Pueblo Cliff Dwellers who built their homes in the rock ledges of Mesa Verde, modern energy conservation programs grew out of the OPEC Oil Embargo in the early 1970 s. The Oil Embargo of 1973 and OPEC control of the petroleum market brought about long lines at the gas pump and eventually abrupt rises in electricity prices. These price rises in the mid-1970 s jolted and angered consumers who had grown used to low energy bills and decades of falling electricity prices. The CPUC ordered California s investor-owned utilities (IOUs, or more recently, UDCs, for Utility Distribution Companies) to offer energy efficiency programs in the late 1970 s in response to customer complaints about high electric bills.

Early utility efficiency programs focused on providing residential customers with energy efficiency options and with tips to reduce their bills. These early programs were known as conservation programs. They offered suggestions such as turning off the lights in unoccupied rooms and turning down the thermostat in winter and putting on a sweater.

In the early 1980 s, energy conservation programs were giving way to what was to be called demand-side management programs. The term demand-side management (DSM) was invented by the Electric Power Research Institute in mid-1983 to describe a broad range of programmatic efforts by utilities to shape total customer demand to better match system generating requirements and system costs.

DSM programs gave utilities a new tool to improve system performance. Utilities could now both reduce or build load, depending on the DSM program and their performance goals. In California, IOUs used four different types of DSM programs: 1) energy efficiency programs, 2) load management programs, 3) fuel substitution programs, and 4) load building programs. Seventy-five to ninety percent of all DSM spending went to efficiency programs.

As DSM concepts and programs grew in popularity, statewide utility spending grew from $100 million a year in 1980 to $230 million in 1984. However, the fall of oil and gas prices in 1985 triggered a downturn in program funding. In 1989, total DSM funding dipped below $100 million a year. Energy efficiency programs seemed to be in trouble.

In the early 1990 s, a group of government, utility, and public interest groups met to discuss ways to rekindle utility interest in DSM and to encourage utility management to promote energy efficiency. The group was called the California Collaborative. They came up with the notion

of paying utilities for every measured BTU or kWh saved. The CPUC authorized the utilities to collect ratepayer funds to buy what was now called conservation resources . As a result, the utilities once again found energy efficiency programs profitable and initiated massive energy efficiency programs statewide. The funding for those programs rose to $500 million a year in 1994. The utility energy efficiency programs were now resource acquisition programs programs that purchased energy efficiency when it was less expensive than building new power plants.

But all this changed in the mid-1990 s with the uncertainty that developed around utility restructuring. Energy efficiency program funding once again declined. In addition, researchers were raising concerns that funding for utility DSM programs was not linked to sustainable changes in the marketplace. For example, a utility rebate program for the purchase of an energy efficient air conditioner would improve sales of efficient air conditioners only so long as rebates were offered. When rebates were stopped, sales lagged.

In February, 1997, the CPUC, directed by Assembly Bill (AB) 1890, issued Decision 97-02-014 to create a new structure to implement public purpose energy efficiency under a restructured utility industry. The CPUC stated that its goal for energy efficiency programs had changed from trying to influence utility decision-makers to trying to improve the functioning of the market so that individual customers and suppliers would make informed energy services choices. Energy efficiency programs were now supposed to make changes in the market that would be sustainable and result in energy savings and practices that lasted long after a program ended.

The CPUC appointed an independent advisory board, now called the California Board for Energy Efficiency (CBEE), to develop this market transformation approach to program funding. The CPUC noted in R.98-07-037 that it was unwilling to continue exclusive utility administration of energy efficiency programs beyond 2001. However, the CPUC never completed the process. The utilities are currently administering energy efficiency programs.

In July 1999, the Governor signed AB 1105 (1999 Stats., Chapter 67), which instructed the Energy Commission to prepare a report to discuss issues related to transferring the energy efficiency responsibilities set forth in AB 1890 from the CPUC to the Energy Commission.

L E G I S L A T I V E D I R E C T I O N
A B 1 1 0 5

This report and the process leading up to it are a response to AB 1105. The Committee has attempted to address and comply with all the provisions of the legislation. In particular, the bill directs the Energy Commission to conduct a public process and to prepare and submit to the Legislature by January 1, 2000, a transition plan report and an operational plan report regarding transferring energy efficiency programs from the CPUC to the Energy Commission.

Since July 1999, when AB 1105 was passed, the Committee has held three publicly noticed Committee Workshops (August 23, 1999, September 9, 1999, October 12, 1999), one publicly noticed Staff Workshop (October 1, 1999), and one Committee Hearing (November 16, 1999) on a Staff Draft Report released on November 8, 1999. In addition the Energy Commission will hold a publicly noticed Business Meeting on December 15, 1999, to adopt the report. The entire administrative record upon which the AB1105 Report is based is available at the Energy Commission and will be gladly provided on request.

In compliance with the legislation, the Committee has broken the EE Program report into two reports. The Operational Plan Report addresses the post transition administrative structure designed to achieve efficient and effective program administration beginning on January 1, 2000.

The Transition Plan Report addresses a number of transition issues regarding transferring the oversight of the program. The legislation identifies the transition period as January 1, 2000 to December 31, 2001. As will be discussed below, the Committee believes that to fully achieve the desired post transition administrative structure, the Energy Commission should have a four year, not a two year transition period. The Transition Plan Report reflects this change.

Two other matters related to the legislation. The Committee has addressed all the subsections of AB 1105, but we have reorganized some of the sections so the report will flow better. Also, the independent review of existing energy efficiency programs directed by the Governor will be done by the RAND corporation. That report will discuss, among other things, the potential for additional savings in California. The report will be available in draft in January, 2000. The final report will be completed in February, 2000.

O P E R A T I O N A L P L A N R E P O R T

The Operational Plan Report (OPR) is really the heart of the EE Program Report. In the OPR, the Committee will discuss the most fundamental question in this process Is there a need to continue the EE Program? In addition, the Committee will state its vision of the program, discuss individual programmatic issues, list the recommended funding level for the EE Program, and discuss the recommended administrative structure.

N E E D

We are living in a time when electricity demand growth is outpacing the building of new generation. Energy Commission analysis shows that California will need 8,500 to 10,000 MW of additional peak demand capacity by 2005. The transmission system that delivers electricity to homes, businesses, and industry is strained. The Energy Commission believes energy efficiency can play a vital role in the state s future by reducing demand growth and increasing system reliability.

The Committee believes there are at least four good reasons to continue the Public Goods Charge:

- Significant cost-beneficial opportunities for saving energy still remain;
- The market will not achieve these savings alone because of market failures ;
- Markets such as the small commercial and the residential markets are currently under served; and
- In a deregulated market, a customer s best hedge against volatile prices may well be energy efficiency.

The Committee believes significant cost-beneficial opportunities for energy efficiency savings remain. The history of energy efficiency savings from 1975 to 1998 has shown how we have progressed as a state. Since 1975, a combination of state energy efficiency standards for buildings and appliances and utility energy efficiency programs have reduced electricity and natural gas consumption in California by over 470,000 GWh and over 50 billion therms. In 1998 alone, the savings from building and appliance standards totaled $1.4 billion per year. UDC energy efficiency programs achieved a similar amount of savings. The displaced energy from both standards and programs was roughly the equivalent of fourteen 700 MW power plants. The combined impact of all the efficiency programs in the state in one year is equal to 15 percent of the total statewide electricity consumption. California continues to outpace the nation in the amount of energy used to produce a unit of Real Gross Product.

AB 1105 Sec. 44(b)(2) asks the Energy Commission to consider an assessment of California s untapped opportunities to secure cost-effective savings. An Energy Commission analysis shows that opportunities for cost-effective energy efficiency investments exist far beyond what we are likely to achieve at current levels of program funding. For example, at current funding levels energy efficiency programs would save 15,000 GWh in 2005, but another 13,000 GWh of additional saving would remain untapped enough electricity to meet the annual demand of San Bernardino County.

A basic premise of this report is that the market, acting alone, without outside intervention, will not capture this magnitude of energy savings. Consumers and businesses often lack the information, tools, or correct incentives to identify and implement energy saving choices that would benefit them. Creating competitive markets in both energy efficiency and retail energy purchasing requires that consumers have meaningful information and choices available to them. It doesn t do much good for a manager of an office building to want to install efficient lighting if fixtures aren t available or if the manager doesn t know how to go about retrofitting the building. Bridging those kind of gaps is where the EE Program comes in.

The Committee believes the EE Program should also continue because various sectors of the economy are under served. A recent study showed that abundant opportunities for addressing barriers to adoption of cost-effective energy efficiency (barriers such as lack of knowledge, no financial incentive, and so on) were particularly prevalent in new construction, residential, and the small commercial markets. In the small commercial markets, most businesses have not implemented even the most common energy efficiency upgrades. There is ample room for improvement here.

Finally, some studies have shown that energy efficiency programs actually lower electricity prices. Certainly energy efficiency programs will be needed in the future to help customers control their energy bills when the electric utility industry is completely restructured and energy prices might become volatile.

V I S I O N

California has been a leader in the nation in promoting energy efficiency, both through public agency programs such as the California building and appliance standards mentioned above, and through energy efficiency programs run by the state s utilities under the direction of the CPUC and now CPUC/CBEE. The goal of the Committee is to maintain that leadership role for the state.

The Committee believes that in this age of utility deregulation, energy efficiency public goods funds should be used to bring about cost-effective energy savings not adequately addressed by the competitive or the regulated market. The Energy Commission believes that saving energy and using energy more efficiently is in the vital interest of the state s future.

Energy efficiency programs reduce the intensity of the state s infrastructure, make businesses more competitive, and allow consumers to live more comfortably.

The Committee believes that public good funds should be used to continue to significantly reduce California s electric system loads and natural gas consumption. Additionally, the Committee believes that energy efficiency programs significantly increase system reliability, reduce the need for new capacity, improve the environment, and stimulate the economy.

The Committee wants to build on the successes of the current system, using the strengths of the UDCs and the insights of the CPUC. The Committee also intends to gradually introduce new market players, increase competition for services, reduce the UDCs market power in delivery of services, continue to move to statewide program delivery where appropriate, enhance the synergy with the Public Interest Energy Research Program (PIER) and the building standards, and develop better coordination with municipal utility and local government programs.

The Committee sees a future where energy efficiency programs are available to all customers, where local governments have an opportunity to provide regionally specific cost-effective energy programs, and where there is a vibrant, competitive private sector that can provide energy efficient goods and services at the lowest possible price and with the highest possible quality.

P R O G R A M S

All this may sound very laudable. Goals and a vision are fine things, but in the end what matters is what we do about them. As a poet once said, In dreams begin responsibility.

To translate the Committee s vision into a reality, there needs to be a strategy. This section, on efficiency programs, and the following two sections, on funding and administrative structure, will outline that strategy.

T y p e s o f P r o g r a m s

As mentioned in the Introduction, conservation and energy efficiency programs have undergone changes over the last twenty years. There have been many conservation programs, four different types of DSM programs, resource acquisition programs to buttress energy supply, and recently, market transformation programs.

Sec. 44(a)(4) and Sec.44(b)(1) of AB 1105 call for the Energy Commission to consider the application of market transformation principles in current and future programs. Market transformation approaches are designed to be sustainable and to rely on market forces to ultimately encourage people to select energy efficient products and services without financial incentives or other market interventions. A key word here is ultimately. Market transformation

programs that use education and information to change customer attitudes and perceptions can sometimes take a long time to bring about lasting change. The energy savings from these programs also can be quite difficult to quantify. Still, the Committee believes market programs have their place within a mix of different programs. The goal is to bring about cost-effective energy savings in the most efficient and effective way possible. Often the combined effect of several different types of programs working together is more effective than using merely a single program.

There are many current programs that use market transformation principles. Since the CPUC mandated that only market transformation programs are eligible for public goods funding, many utilities claim that all their programs are market transformation programs, and because experts in the field disagree on a precise definition of market transformation, they may have a good argument.

The Committee believes that certainly programs like the utilities Energy Centers, places where both lay people and energy professionals, such as architects and engineers, can go and see exhibits and take home ideas, qualify as market transforming programs. Studies have shown that designers who come to the Energy Centers are beginning to compete for new business based on what they had learned. But other programs of a different nature are also market transforming, like some commercial lighting programs or the Residential Contractor Program which combine financial incentives with customer education designed to encourage customers to make energy-efficient selections even after financial incentives are removed. Also programs that provide so-called upstream assistance to manufacturers to encourage them to produce more energy efficient equipment may reduce barriers to energy efficiency (the unavailability of energy efficient products is rather a large barrier to energy efficiency) and help to transform the market.

In the future California should encourage the continuation of these type of programs, in part because they eventually provide a sustainable market situation and in part because they encourage the privatization of the energy efficiency field. The Committee would also like to see the whole area of market transformation studied more completely and will develop guidelines that will help provide a basis for evaluating market transformation programs and for determining what pilots are successful and worthy of expansion.

One current program called out specifically in Sec.44(b)(8) of the legislation is the Standard Performance Contract (SPC) program. The legislation asks the Energy Commission to consider this program as an example of a program that stimulates the growth of a competitive industry.

The SPC program is one of those programs. An independent contractor (usually an energy service company or ESCO, sometimes called an energy efficiency service provider or EESP) enters into contract with the utility to provide a certain number of megawatt hours saved. The contractor is paid by how many kWh they save for their utility customer client. Once a contract is signed, the contractor takes whatever action they have agreed to take (e.g., installing more efficient lighting in an office building) fairly quickly, within 6 to 12 months, then estimated program savings are rigorously verified over a two year period.

Preliminary evaluation of the SPC programs offers mixed results. For the nonresidential SPC programs, evaluations show that contracts to achieve a significant level of energy savings have been written, but so far there have been very few verifications of savings from these contracts. Interviews with participating EESP firms suggest that it is too early to determine if the market can now support the activities of these EESP firms without the continuing subsidies of the EE Program. In other words, it is too soon to determine if the market is being transformed. CBEE has continued its support for the nonresidential SPC program but cancelled residential SPC programs after the first year after complaints about the program effectiveness.

The Committee believes there is a place for SPC programs in the program arsenal. The Committee would continue to follow the direction of CBEE in making the contracts simpler (one workshop participant likened them in size to the San Francisco phone book) and in making a wider variety of contracts available so ESCOs of various sizes could compete.

Coordination with Other EE Programs

Sec.44(a)(3) asks the Energy Commission to consider coordination and synergy between the EE Program and other public goods charge programs, such as the PIER program. Programs that should be coordinated with the EE Program include the PIER program, state energy efficiency standards, and the PGC program run by the municipal utilities. In the Administrative Structure section of the report, we have recommended an approach that we believe will facilitate coordination between all these programs and the EE Program. Having some members of the PIER independent review panel also serve on the EE Program Independent Review Panel is one way of achieving coordination. We also believe that municipal utilities should voluntarily report the annual spending and benefits of their public goods programs to the Energy Commission.

The Committee believes that the energy efficiency technologies and practices offered by the research community through the PIER program need to be placed in the market, via market transformation programs, for example, as soon as possible to maximize public benefits. The utilities have recently proposed creating a Emerging Technologies Coordinating Council to coordinate efforts between each of the individual utility s Emerging Technologies Programs and the Energy Commission s PIER program. Whether or not the CPUC will approve this proposal is unclear. What is certain is that a statewide strategic vision for the deployment of emerging technologies is needed. If the Energy Commission is given oversight of the EE Program, the Committee intends to articulate such a vision and make it part of its Strategic Plan.

Innovation

Before leaving the discussionof programs, we need to mention innovation. While our state s success in improving energy efficiency over the years is enviable, we must take advantage of

the skills and new perspectives of a number of private and non profit organizations who have not participated in the development of past program designs, The Committee believes Innovative Programs area should be created to provide an opportunity for local agencies, for example, to develop and test programs meeting the needs of their residents. Individual stakeholders will have the opportunity to recommend new approaches for promoting or achieving efficiency, that may be tested through pilot programs. New ideas and innovations that prove successful in the Innovation area can be moved into mainstream programs, without creating uncertainty for those providing the administration. The CBEE/CPUC small third party program has fostered a number of very inventive concepts from this bottoms-up approach.

FUNDING

Utilities are currently authorized to spend about $276 million on both electricity and natural gas programs, including administrative costs and the cost of evaluating the programs. The funding horizon for the EE Program, however, does not extend beyond 2001 in the latest CPUC order.

Sec.(44)(b)(6) of AB 1105 asks the Energy Commission to consider the appropriate funding levels for the EE Program in the years after 2000. To arrive at a recommended funding level for the post-2000 era, the Committee considered a number of factors: 1) current program effectiveness; 2) an assessment of potential future energy savings; 3) the relevance of programs after restructuring in the electricity market; 4) the continued advantages of these programs to customers; and 5) the unpredictability of the electric industry s evolutionary process.

Rationale

In considering the first factor, utility reports show that for 1995-98, energy efficiency programs are cost-effective. Studies show 1998 programs have returned at least two dollars in benefits for every program dollar spent. Given the current projection of electricity and gas prices, the Committee can see no reason why these programs should not continue to be cost-effective.

The second factor, the potential for achieving additional savings beyond the year 2000, was discussed above in the section on need. Continued funding of the EE Program at the current level would capture savings averaging around 15,000 GWh per year over the next ten years. That would still leave an equal or greater amount of energy remaining as unrealized potential.

Recent market assessment and evaluation studies indicate abundant opportunities remain for addressing barriers to the adoption of cost-effective energy efficiency, particularly in the new construction, existing residential, and small commercial markets. The small commercial market in particular has been chronically under-served by previous utility programs.

As for the third factor, the Committee believes there will be a need for the programs after restructuring is completed. Deregulation will reduce electricity prices for some customers but raise prices for others. Price reductions are most likely to accrue to large customers, not small businesses or homeowners. Power Exchange prices will likely remain volatile. In the deregulated market, investors, not customers, bear the financial risk of new power plants, and reliability problems are forecast.

In this kind of environment, the fourth factor comes into play. Energy efficiency programs continue to make sense. As in the early days of conservation, efficiency programs may once again become a hedge for the small commercial and residential customers against high prices. Clearly the best way to weather energy price variability is to use energy as efficiently as is cost-effective.

Finally we come to unpredictability. Everyone in the energy efficiency business, in fact everyone in any business, knows there are start-up costs and lag times for a new enterprise to get off the ground. New energy efficiency programs, like new restaurants, take time to develop a following. To withdraw funding for the energy efficiency programs in the year 2001, when electric industry uncertainty is likely to be at an all-time high, would be a grave mistake. History has shown that energy efficiency programs cannot be turned on and off like a faucet. The public needs continuity in efficiency programs to develop confidence in those programs. The Committee believes the EE Program provides a safety net during times of uncertainty for many citizens and businesses in the state and needs to be kept in place.

Recommendation

For these reasons the Committee recommends that the funding level for the EE Program remain at current levels adjusted for inflation in the year 2002. Though there is more potential for achieving energy savings than this funding level can cover and though some programs have not worked out as planned, the Committee has no real justification at this time for either increasing or decreasing the level of funding. To maintain program continuity, funds for program activities should be continuously appropriated. To insure that natural gas customers pay an equitable portion of program costs, the Legislature should institute a non-bypassable surcharge to help fund program activities.

The Committee budget for 2001-02 breaks down as follows:

Recommended Program Funding (in million of 1998 Dollars)		
	Committee Recommendation	1999 Level
Innovative Programs	30	--
New Construction	40	42
Residential	80	90
Nonresidential	100	128
MA&E/Governance	20	N/A
Total	270	260

We have picked these categories new construction, residential, nonresidential---because they are the broad categories most often used when describing groups of programs. We have added the Innovative Programs category for reasons that will be discussed later. We have included in the above table the 1999 authorized funding level for the EE Program. It should be pointed out that some of the funding we recommend for the Innovative Program category is captured in the authorized 1999 level in the other categories. Also, we want to make it clear that the annual recommended funding level is for both electricity and natural gas programs, and that the funding level should not be less $270 million annually in 1998 dollars. Finally, we recommend that the funding level be adjusted upward to reflect inflation.

The funding required, $270 million per year, should be collected through a uniform surcharge of 1.3 mills/kWh for electricity customers and 4 mills/therm for all jurisdictional gas customers. Continuous appropriation of funds should be reviewed every four years thereafter by the Legislature, after receiving the evaluation of how well the governance and administration system is working from the independent review panel. The current program should sunset in ten years (2011) and require legislative reauthorization to continue.

Supply Adequacy

The Committee has identified electricity supply adequacy as a key issue facing California over the next few years. A reliable system reflects a balance between demand and supply. In a competitive market, the balance can be achieved by either generation addition or demand modification. Key questions include: Will generation be there in the future during periods of high peak demand when Californians need it the most? How reliable will the restructured electricity system be? How high will prices go during the peak demand times of the day? Will consumers have the ability to respond to time-of-use pricing?

The Committee does believe that electricity prices should reflect the costs of generation and delivery. Consumers can t make rational economic investments in energy efficiency and distributed generation if they are getting the wrong price signals. Most consumers, especially residential and small commercial customers, do not now, and probably won t for several years, receive prices that reflect time-of-use or geographic price variations. This is particularly true during the oppressive summer heat storms when actual prices spike, but consumers pay a much lower averaged-out price.

Sec.44(b)(5) of AB 1105 asks the Energy Commission to consider [w]hether eligibility for program funds should be expanded to support the ability of electricity consumers to shift electricity usage in response to pricing differences. Before the Committee can answer this question, some history and a number of issues have to be addressed.

There are two major reasons why consumers don t currently pay these prices. The first is that real-time meters, devices that replace existing meters and let customers know how prices change throughout the day, are too expensive for any mass application. The second reason is that AB 1890 has frozen rates in their current structure and does not allow the CPUC to pass on the higher cost of generating on peak to their customers. This rate freeze extends through the transition period or until the generation-related stranded costs the cost of old plant and equipment that exceeds its value in the market are collected. With the exception of San Diego, this has not yet occurred.

In light of the Committee s concern for supply adequacy, we believe it is appropriate to first investigate whether EE Program funds should to used to increase a customer s ability to respond to prices and bid demand reductions into the electricity market, and then, if the Committee determines the EE Program funds are to be used, to determine what way the funds should be spent and how much to spend.

The Committee believes that in part the supply adequacy concerns are a near-term problem associated with the need to add new generation during a time of market transition. However, addressing price (or demand) responsiveness should always be a consideration in designing energy efficiency programs. Programs should properly value the cost of peak and off-peak energy, whether the programs are about real-time responsiveness or efficiency measures that reduce peak over a longer period of time.

Another important factor to consider is that as the market matures, generators will realize that keeping power plants in reserve to serve peak loads for a few hours a year will not be profitable. If that s the case, the need for price responsive load reductions will be essential for the electricity system to work.

Given all that, what does the Committee intend for the Energy Commission to do? The Energy Commission will investigate the kinds of measures and programs that could contribute to increasing price responsiveness and the appropriate means of paying for them. This investigation

will assess progress being made in establishing pricing policies, load curtailment programs, and protocols to allow effective demand bidding into the market. The Energy Commission will initiate this investigation as part of our responsibilities under SB 735, which includes identifying how energy efficiency fits into the ISO s grid planning process. In addition, the Energy Commission will look at the potential to develop new energy management strategies that could give residential and small commercial customers the ability to control their own real-time response to changing prices. This could involve linking PIER R&D to energy efficiency demonstration programs.

Because the Energy Commission has yet to complete this investigation, it s impossible at this time to say if EE Program funds should be used and if so how much should be used. We estimate that costs probably would be about $20 million per year, based on historical expenditures for load management that ranged from $29 million in 1988 to $8 million in 1997. If EE Program funds are used, they could either be redirected from the existing budget or be an additional incremental cost beyond the authorized level of expenditure for a limited number of years.

ADMINISTRATIVE STRUCTURE

The topic that drew the most attention at the workshops was what administrative structure would exist in place of the current CPUC/CBEE oversight arrangement. Stakeholder opinion on this varied dramatically: some parties basically wanted to continue the same type of administrative system that currently exists, with utilities continuing their present role and the Energy Commission replacing the CPUC as the governing body, while other parties wanted to move away from any utility management of the program as quickly as possible.

In many ways the Committee believes proposing a new administrative structure is the most difficult and the most challenging part of the legislation. It s certainly the most controversial. After all, we re dealing with changing a system that has been in place for twenty years. There s a great deal at stake for customers and businesses, including the utilities that have run these programs from the beginning and have amassed an enviable record of saving energy.

So the Committee does not take this responsibility lightly. The option we will propose tries to be responsive to as many of the concerns of the stakeholders as can be reasonably integrated with our own vision of what the EE Program should do and our overriding concern with not damaging this fragile egg of programs, as one participant referred to them.

Issues and Organization

This section will, by necessity, cover many issues. AB 1105 Sec.(44)(b) and Secs.(44)(b)(4) ask the Energy Commission to recommend a post-transition administrative structure that is designed to achieve efficient and effective program administration and to consider the appropriate role of

other private and public entities providing energy services, including a nonprofit corporation as the program administrator.

Sec.(44)(b)(6) requests the Energy Commission address the appropriate program oversight in the post-2001 period. Sec.(44)(b)(7) directs the Energy Commission to consider minimizing the role of state agencies in providing administrative and implementation services. And, though it is not expressly asked for in the legislation, the Committee will also discuss the kind of legislative relief we would need to make our recommended administrative structure work and what we believe the role of the utilities, local governments, municipal utilities, and other parties should be in the new administrative structure. This last point will include a brief discussion of a possible conflict of interest that the utilities may have in administering the EE Program.

How and over what period of time the Committee plans to put this structure into place will be discussed in the Transition Plan Report, which follows this section.

Functions of the Administrative Structure

The Committee has identified five key functions that an administrative structure must carry out:

- Program governance and oversight
- Program administration
- Program implementation and delivery
- Internal evaluation
- Independent program review

If all these functions were in a pyramid, program governance and oversight would be at the top. The governing entity needs to establish broad policy goals for the EE Program and articulate those goals in a strategic plan. The governing entity must also set broad budgets for all program areas and maintain a process to check to see if the EE Program is meeting its goals. The governing entity can either select and contract out the actual administration of the EE Program, and then oversee the work of EE Program administrators to assure conformance with the strategic plan, or the governing entity can oversee a non-profit or other entity that handles all the contracting and administrative details. Lastly, the governing entity is ultimately responsible for the success or failure of the EE Program and is accountable to the Legislature and the people of California.

EE Program administrators are in the middle of the pyramid. EE Program administrators develop and manage programs. The Committee has determined that there will be four areas, or energy markets, that EE Program administrators will be responsible for: residential, nonresidential, new construction, and innovative programs. EE Program administrators will have authority to manage these markets and obtain cost-effective energy savings.

EE Program implementation and delivery is the broad bottom of the pyramid where customer contact takes place. EE Program implementers are hired by the EE Program administrators or, in some cases, may be the EE Program administrators. EE Program implementers are out in the field. They are the people who knock on customers doors and who replace inefficient lights with energy efficient T8 lamps. They may participate in regional alliances or trade groups, and, if they are not EE Program administrators themselves, are responsible for reporting back to EE Program administrators.

Internal evaluators tend to float around in the pyramid. Internal evaluators will assess the overall performance of EE Program administrators and EE Program implementers. Though we will require and select conscientious EE Program administrators who will be continually evaluating and reevaluating their own programs, based, in part, on operational guidelines to be developed by the Energy Commission, the internal evaluator will be independent of them and will report to the governing entity and to the EE Program administrators. Internal evaluators will provide information that will be used in determining the need for changes in program policies, program budgeting, program design, or program testing.

Finally the independent program review operates outside of the pyramid. The independent program review will operate much like PIER Independent Review Panel and will provide objective feedback to the Legislature and others regarding the effectiveness of the overall program. They will also suggest ways for improving the administrative structure and functions.

Recommended Administrative Structure

The Committee used five principles to determine how the new administrative structure should be set up: 1) the recommended administrative structure must provide a smooth continuity from the old structure and create no hiatus in the EE Program; 2) the new administrative structure must make efficient use of existing resources; 3) the new structure must operate in an efficient, fair, and effective manner; 4) the new structure must provide an open and accountable process to the public; and 5) the new administrative structure must support flexible, innovative, and coordinated design of statewide efficiency programs.

With these principles in mind, the Committee makes the following recommendation for a new administrative structure:

Governance and Oversight. The governance and oversight function of the EE Program needs by it s very nature to be in the hands of a public agency. The governance function must be publicly accountable. The two logical choices for this role are the CPUC and the Energy Commission. The Committee believes that the Energy Commission is the best public agency to oversee this program.

This is not merely a self-serving statement. We believe the Energy Commission has experienced staff that can serve in a core governance capacity. The Energy Commission has experience running energy efficiency and public goods charge programs. We are uniquely qualified to tie the EE Program into activities going on under the Energy Commission s PIER, building standards, government buildings programs, schools, agriculture and industry programs, and expanded new construction programs. The Energy Commission has a stellar history of adhering to public process.

The Committee considered setting up an Energy Efficiency Authority, a public entity designed with the express purpose of administering the EE Program funds, but decided against this option because of the potential delays involved in setting up an Authority and the politicization this might cause running the EE Program.

EE Program Administration. EE Program administration is perhaps the key issue in the legislation. There are many, many options here: leaving the utilities doing pretty much what they are already doing, having the Legislature set up a non-profit to run the EE Program, letting the Energy Commission set up a non-profit, delegating all of the administrative functions to the Energy Commission, delegating some of the administrative functions to the Energy Commission, and various combinations of the above.

We found the two most attractive choices were having the Legislature set up a non-profit and having the Energy Commission contract out for services.

There is much to be said in favor of having the Legislature set up a non-profit. The CPUC was heading in this direction. The CPUC believed that setting up a legislatively mandated non-profit would eliminate the legal and technical barriers the CPUC faced when using other approaches, such as contracting, to administer the EE Program. Furthermore, nonprofit corporations have been serving as administrators for EE Programs in several other states. For example, in 1996 various public and private entities in the Pacific Northwest mutually decided to create a new, non-profit (the Northwest Energy Efficiency Alliance) to administer a portion of that region s EE program. In 1998, New York designated an existing, legislatively authorized non-profit (the New York Energy Research and Development Authority) to serve as a statewide administrator.

There are a number of benefits from using a non-profit. The Board of Directors could represent a wide range of interested stakeholders private industry, ratepayer groups, utilities, policymakers. Examples of such a stakeholder oriented board are California s Independent System Operator (the ISO), and California s Power Exchange (the PX). Both were set up by AB 1890.

A non-profit might well be best suited to administer the EE Program. A non-profit may be able to operate without the restrictions of various laws that constrain state agencies (the civil service employment system, the Public Contracts Code, the Public Records Act, etc.). This might allow the non-profit to recruit and hire highly qualified employees from the private sector and make internal administrative and program contracting decisions with a degree of speed and flexibility that a state agency simply cannot match.

Finally, the private sector nature of a non-profit is likely to be compatible with the Committee s vision of the EE Program, a competitive, statewide program that heavily draws in the private participation.

On the other side of the ledger, there are problems with a non-profit. If a qualified non-profit does not exist, there will likely be delays and other start-up costs in creating, staffing, and organizing a new entity. Identifying and selecting the proper mix of the Board, hiring an executive director and staff, and ensuring that the new organization fully qualifies for federal tax-exempt status under the Internal Revenue Code might prove daunting.

Also, it s legally uncertain if the non-profit s apparent advantages of being outside state government (ease in hiring and contracting, exemption from the Public Records Act, etc.) would really come to pass. A U.S. Supreme Court decision (Evans v Newton, 382 U.S., 296, 299; 86 S. Ct. 486, 488 (1966)) stated, When private individuals or groups are endowed by the State with powers or functions governmental in nature, they become agencies or instrumentalities of the State subject to its [legal] limitations.

Finally, an important issue of public trust and confidence may arise if too much of the EE Program is administered by a non-profit, without the traditional government safeguards that assure public access, accountability, and fairness.

In the end we decided that for now, though a non-profit was an attractive choice and may well be an alternative we turn to in the future, the Committee recommends that overall program administration be handled through an Energy Commission contracting process, with awarded contracts being staggered over four years.

The Committee makes this recommendation with the caution that this suggested administrative structure will only work if the Legislature allows the Energy Commission relief from some of the restrictions we face as a state agency. Most of the requests below have already been granted to the Energy Commission in one program or another (PIER, Renewables), though no program has had all of these contracting restrains lifted. We believe, however, that the unique nature and magnitude of the EE Program requires all the following legislative changes:

- Specifically allow multi-year contracts;
- Allow for some limited advance payment (30, 60, or 90 days) so the program administrators do not have to float the payment of implementers;
- Allow the Energy Commission to establish regulations, if the Energy Commission deems necessary; and if so, with an exemption from the normal OAL process (similar to what s done in PIER and the Renewables programs);
- Allow every conceivable method of contracting (including granting) and contract solicitation method: including sole and single source, negotiated, and competitive contracts;
- Provide funds for technical support, program evaluation, and audits.

How the staggered contracting method mentioned above will work what sections of the market will be contracted out and in what year will be discussed in detail in the Transition Plan Report. What s important to mention here is that the goal of the EE Program report is to eventually have the private marketplace and not exclusively the UDCs administer the EE Program. However, the Committee intends this change to take place in an evolutionary manner over the next five years, with the UDCs continuing to be the fallback in every market.

A logical question to ask at this point is, Why not leave the UDCs as EE Program administrators? Why change a system that seems to have been working well? The answer to these questions is complex. The UDCs have done a good job. The utilities staff working in this field are as highly trained, dedicated, and professional as one is likely to come across anywhere in the energy field. Yet in a restructured environment designed to achieve maximum competition, leaving the program administration solely in the hands of UDCs is problematic.

Restructuring has changed the game in many ways. Questions of conflict of interest seem more pertinent now than ever. There are real questions about high level corporate objectives to help consumers save electricity and gas when the company earns revenue by selling electricity and gas. Plus there are issues about service territory boundaries. Many energy efficiency programs need to be run statewide. The Committee applauds the efforts of UDCs under CBEE direction to work together on programs design issues of programs that operate throughout the state. But the Committee is concerned that too often in this utility collaboration, innovative programs get short shrift and the program that is selected among the utilities is the lowest common denominator program.

Also, having a natural monopoly like the UDC administer the EE Program seems contrary to the spirit of deregulation. If innovation and creativity are to be given a change, the power of the market needs to be brought to bear on some of the barrier issues surrounding energy efficiency.

And finally, Third Party Initiative programs, those programs that are designed and initiated by the private market and that are funded through EE Program funds and that fall under Sec.44(b)(8) of AB 1105, would seem to have a better future if administered by a non-profit or by the Energy Commission. Not that energy efficiency professionals in the UDCs haven t been helpful or supportive of these programs. From all accounts they have. But the Committee is concerned that corporate mangement may have reluctance to back programs that are not company programs.

Program Implementers. In an attempt to minimize state involvement in the process (see Sec. (44)(b)(7)), the Committee believes that program implementation should be open to anyone but the Energy Commission. Program administrators should assign implementation responsibilities to a variety of different entities based on merit. Administrators can be implementers, but a percentage of contracts will be required to be put out to bid.

Measurement and Evaluation. All entities engaged in the management or implementation of the EE Program should be allowed and encouraged to conduct their own internal evaluations of the effectiveness of their efforts. However, to ensure objectivity and effective feedback, we recommend that the governing authority, with the assistance of one or more outside entities, as needed, conduct its evaluation of various aspects of the EE Program, and use this information as feedback for EE Program administrators and implementers as a basis for adjusting program goals and as a factor in determining appropriate compensation for the EE Program administrators.

Independent Program Review. We recommend that the Legislature set up an Independent Review Panel, using the the PIER Independent Review Panel model, to evaluate the overall functioning of the EE Program. We further recommend that this panel contain at least some of the members now serving on the PIER panel. We also recommend that this panel provide results to the Legislature periodically, with a report provided to the Legislature after four years.

S U M M A R Y

To briefly summarize the structure, we see the Energy Commission providing policy direction and review of the program. The Energy Commission will also select a project manager, a person at the Energy Commission who will oversee the administrative details of the EE Program. The project manager along with a small group of Energy Commission staff will, if provided with legislative relief, issue one or two RFPs in each year of the four year transition period. These proposals will cover MA&E initially and then different market sectors in different years. The parties awarded these contracts will then have broad authority, pursuant to legislative relief, to administer subcontractors and programs within their market segment. The Energy Commission will not micromanage these EE Program administrators. The Energy Commission will make sure the program administrators are operating consistent with the Legislature s direction for the program. During the transition, there will be no competitive bidding between utilities. The utilities will be eligible to bid for various RFPs as they are released.

Program administrators will be able, pursuant to legislative relief, to select contractors who will provide energy services and products to consumers or take whatever other actions the program administrators deem necessary to bring about cost-effective energy savings.

There will be evaluators who will evaluate what is happening in the individual programs. There will also be an independent review panel to evaluate the overall EE Program.

UDCs will be retained as program administrators until such time as the Energy Commission can provide for competitive choice. This transition away from UDCs will not occur sooner than is shown in the schedule contained in the Transition Plan Report.

We believe the administrative structure we have recommended addresses the necessary functions of the EE Program and satisfies most, if not all, of the evaluation criteria listed above while retaining the expertise of the UDCs, protecting the public, and insuring the continuation of the EE Program in an effective manner.

TRANSITION PLAN REPORT

For the Transition Plan Report, the legislation asks the Energy Commission to consider: 1) how to transfer responsibility from the CPUC to the Energy Commission (Sec.44(a)(1)); 2) what the sequence of events needs to be to put in place the new administrative structure (Sec.44(a)(2)); 3) what resources will be necessary to implement the transition plan (Sec.44(a)(5)); 4) what coordination will exist between the EE Program and other public good charge programs such as PIER (Sec.44(a)(3)); and 5) what program requirements are necessary to ensure the continuation of market transformation principles (Sec.44(a)(4)).

The last two of these topics have been considered in various places elsewhere in the Operational Plan Report. Coordination with PIER was considered under both Programs and Administrative Structure. The continuation of market transformation principles was considered under Programs.

Before we discuss the first three topics, we need to note that AB 1105 described the transition period as the two years that remain before the current authorized funding for the EE Program expires. That is, years 2000 and 2001. The legislation envisioned that the new structure would be fully in place January 1, 2002.

While the Committee s recommended administrative structure will be in place by January 1, 2002, the goal of having a freely competitive EE Program will not be realized until 2005. We believe these extra years are needed to ensure a smooth transition and not jeopardize the effectiveness of the current programs.

SCHEDULE

Transition Year One---2000

Starting on January 1, 2000, after submitting this report to the Legislature, the Energy Commission will begin a number of activities. The Energy Commission will begin to work with the Legislature to respond to additional questions and to offer assistance, if needed, to help craft legislation that would enable the Energy Commission to have the authority and degree of contracting flexibility necessary to make our recommended administrative structure work. In return for the added flexibility provided by exemptions from the state contract procedures listed in the Administrative Structure section in the Operational Plan Report, the Energy Commission

will propose oversight functions to insure that it meets its responsibilities. The Committee proposes that the Legislature incorporate a blend of requirements similar to those used for the Renewables and the PIER programs. These include a periodic audit of EE Program funds by the Department of Finance. Also, as mentioned above there should be an independent review panel set up to review EE Program operations and to report to the Legislature.

In the first year of the transition the Energy Commission will also begin drafting a Strategic Plan for the EE Program. This document will provide the guiding vision for all subsequent work. The Energy Commission will also determine the amount of energy efficiency that can still be realized in each market, review existing programs, more thoroughly, and prepare operational guidelines that will serve, in part, as a basis for evaluating pilot and other programs. All of these activities will help the Energy Commission better allocate funds between program categories.

In late 2000, pursuant to legislative authorization, the Energy Commission will begin work on two RFPs. The first will be for independent measurement, analysis, and evaluation. As mentioned in our discussion of administrative structure, measurement and evaluation is one of the five key functions of an administrative structure. The Energy Commission will draw on experience gained from years of working in-house on measurement and evaluation and on the experiences of CBEE. We propose to continue efforts to collect general data about end-use characteristics using survey techniques. The Energy Commission has been authorized to collect this data by the CPUC for 1999 and 2000.

The Energy Commission will also, pursuant to legislative authorization, begin working in late 2000 on an RFP for the Innovative Programs category. This RFP will include funds for Third Party Initiatives, local governments, and other innovative programs. The Energy Commission will ensure that there is no overlap between this EE Program funding category and PIER funding. In fact, the Energy Commission will attempt to maximize interact between the two EE Programs, to create synergy and coordination in the words of AB 1105. The Energy Committee will also work with UDCs to determine which of their current programs qualify as programs in the Innovative Programs category and ensure that these programs are transferred over smoothly to a new administrator.

In 2000, the Energy Commission will continue to work with CPUC. Currently the Energy Commission is actively involved with CBEE. The Energy Commission will continue this involvement and work to help make the transition of the EE Program smooth and effective.

Also, in 2000, the Energy Commission will select a project manager and establish a group of in-house staff whose sole responsibility will be to work on the EE Program. The Energy Commission will need in the range of 10 to 15 staff in 2000 and 2001.

Finally, the Energy Commission will need to begin to use outside technical assistance to help set up the new administrative structure. We estimate we will need $1 million in each of the first two

years. The Committee recommends that the Legislature establish a Trust Account in the State Treasury by July of 2000 and transfer $1 million from the current EE Program funds for the Energy Commission to use to fund technical assistance.

Transition Year Two---2001

In the second year of the transition period, the Energy Commission will release both the $15-20 million measurement and evaluation RFP and the $30 million innovative programs RFP to open bidding and award the contracts. By 2001, the Energy Commission will have laid the groundwork to transfer existing UDC programs in the Innovative Program Category to a new administrator. The Energy Commission will start both contracts by the end of 2001 or the beginning of 2002. UDC administrators may have to slightly cut back on 2001 program funding levels (by $5-10 million statewide) to fund start-up of the Innovative Programs RFP in late 2001. The UDCs will still operate programs in the residential, new construction, and nonresidential markets.

In 2001, the Energy Commission will begin working on the new construction program RFP. The Committee believes this is the next logical program category to transfer to independent administration. The Energy Commission has a great deal of expertise in this area and has promulgated building and appliance standards for almost 20 years. The Energy Commission also has building inspector training programs, an 800 Hotline for questions about the building standards, and other informational programs for the new construction market.

The Energy Commission will prepare the sole source contracts that will be awarded to the utilities in 2002 so that they can continue to operate all the efficiency programs that are not bid out by the various RFPs.

The Energy Commission will continue to work with the CPUC in 2001 to ensure a smooth transition.

The Energy Commission will use the second year of technical assistance funding to continue to put the new administrative structure in place.

Transition Year Three---2002

By the beginning of the third year of transition, the new administrative organization will be in place. The Innovative Program RFP will have begun and the independent measurement and evaluation team will begin to look at some of the existing programs administered by the UDCs.

In 2002, the Energy Commission will release the $40 million new construction RFP and award the contract. Work will begin on this contract in either late 2002 or early 2003. The UDCs will continue to administer the residential and nonresidential new construction programs.

The Energy Commission will begin work on drawing up an RFP for the Nonresidential program category.

Transition Year Four---2003

The New Construction program will roll out under a new administrator. Innovative Programs are also under a new administrator and underway. Measurement and evaluation activities are continuing.

The Energy Commission will put the $100 million nonresidential program out to bid and awards the contract. The nonresidential program will start either late 2003 or early 2004.

UDCs continue to administer residential programs and nonresidential, up to date of new administrator taking over.

Transition Year Five---2004

Nonresidential program begins statewide. Measurement and evaluation contract ends. Residential sector RFP developed.

By 2005, all administrative positions have been bid out. No exclusive UDC programs remain, and the transition is complete. The potential exists to renew the Innovative Program administrator contract and evaluation contract or to issue new RFPs.

Graphically, the schedule looks like this:

Phased RFP Release					
	2001	2002	2003	2004	2005
Innovative Programs	RFP Release	Contract Start		Contract End	New RFP/contract extension
New Construction		RFP Release	Contract Start		Contract End
Nonresidential			RFP Release	Contract Start	
Residential				RFP Release	Contract Start
Independent MA&E	RFP Release	Master Contract Start		Contract End	New RFP/contract extension

S U M M A R Y

The above schedule puts roughly $60 million out to bid each year over a four-year period starting in 2001. The timing of this schedule is designed to let the Energy Commission test out and gain experience with the new contracting procedures, including those tailored approaches approved by the Legislature. The Committees also hopes that a phased-in schedule like the one above will give the an opportunity to learn from any mistakes made in the first set of RFPs and make any revisions necessary in the timetable.

This schedule reduces the number of RFPs released in any given year to either two, as in the first year, or one per year, as in all the remaining years. This staggered release will allow the Energy Commission to operate the EE Program with limited new staff additions.

CONCLUSION

The Committee believes that deregulation will bring about many benefits for consumers, including expanded choice, a potentially greater range of services, and possibly lower prices. If deregulation in other industries, such as the telephone industry, is any example, consumers should expect the marketplace to produce services and products, the likes of which they have never seen.

Deregulation is also raising concerns about the continuation of public benefits programs. The Committee believes that public benefits programs, such as the Energy Efficiency Public Goods Charge Program, should be continued and funded at the current level. This provides energy efficiency programs that both increase the competitiveness of business and reduce energy bills, but the program also offers an opportunity to reduce the feudalistic division of energy programs along utility service area boundaries and to give the program over to the market where innovation can be given free rein.

The Committee believes that this proposal is really a proposal for a new millennium of energy efficiency improvements.